

Purchase Card: Best Practices for a Best in Class Program

By Catherine Poole and Bob Welch

To say the recent headlines regarding purchase card abuses have been startling is an understatement. They have been so startling, in fact, that Congress and the Administration have begun asking serious questions about the current program—and raising many more about the future of the program. OMB has put out a call to agencies for remedial action plans, due earlier this month, to address the adequacy of internal controls in their programs.

But with all of the negative focus on the program as of late, we must ask the question—Is the program being given due credit? Has anyone recently assessed the true value of the program—the costs, the risks and the benefits? Is the program really as fraught with fraud as some would have us believe? Should we throw the proverbial baby out with the bathwater, as some have suggested? Or are there other options?

This *Advisory* explores issues surrounding the use and abuse of the purchase card in the federal sector, as well as its current—and potential—value as an acquisition tool.

Why does the government have purchase cards?

The idea of applying the commercial credit card for purchasing within the federal government originated in 1985 based on this reality model:

“A \$10 purchase request or requisition is signed by the originator and two or three other people before it is received in a procurement shop. That process takes anywhere from a few days to a month. Then, when the procurement shop gets it, the requisition is reviewed by the supervisor, sent back for correction (if needed), returned, entered into a log, and eventually assigned to a buyer ... another week. Then the buyer (who already has hundreds of similar requisitions) puts this one in the pile and eventually gets around to placing the order ... another week or two. So, looking back over the trail of a typical small purchase, we see about six stops in as many weeks. In many cases, there is no value added at any of these stops. Often, especially on the small dollar items, the purchasing agent buys exactly what the requestor wanted from the company that the requestor recommended and at the price shown on the requisition.”¹

This scenario—played out time and again across the government—led to a 1985 request from the Department of Commerce to the Office of Federal Procurement Policy (OFPP) to approve a pilot program to test the use of a commercial credit card for procurement.²

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The government credit card program—later termed the BankCard or simply Purchase Card program—offered strong potential to replace other traditional procurement instruments and methods and to realize significant savings. Further, the program offered the potential to implement controls in areas where little or no controls existed previously. Waste, fraud and abuse of federal funds long preceded the use of the purchase card in the government. However, with lots of paper and no automation, oversight was an arduous task and relatively few cases of waste, fraud, or abuse were discovered. Even fewer made their way into the public news arena. Not surprisingly, the IG community, tired of trying to track down imprest fund or SF-44³ fraud, was among the first to appreciate the value of this tool.

In 1993, the National Performance Review (NPR) recommended that agencies *increase* their use of government purchase cards for small purchases to cut the ‘red tape’ normally associated with the federal procurement process. The Administrator of OFPP asked Senior Agency Procurement Executives to voluntarily sign a pledge to provide managers with the ability to authorize employees who have a bona fide need to buy small dollar items directly—using a purchase card—and increase usage over that year by 100%. By September 1994, that goal was met. Ten Senior Agency Procurement Executives⁴ presented a report to the Director of OMB, which read, in part—

“...by the end of the tenth month (after signing the pledge), (our agencies) had increased purchase card usage by 119%, making 82,000 purchases per month worth almost \$19,000,000. While meeting the pledge is gratifying in itself, the real merit here is in the success stories heard from those program managers and their employees who have been entrusted to buy what they need, when they need it, to do their jobs. Since starting this project, the ten agencies have made 750,000 purchases faster, better and at less cost with the card. Plus, they report virtually no waste or abuse.”⁵

In addition to documenting several true success stories, the interagency team that conducted the study also conducted a cost/benefit analysis, which compared the costs and benefits of using a purchase order versus a government purchase card. The analysis took into account the time it takes procurement and finance to process an action, and ultimately established a cost of \$94.20 for processing a purchase order versus \$40.43 for using a purchase card – a 60% savings!

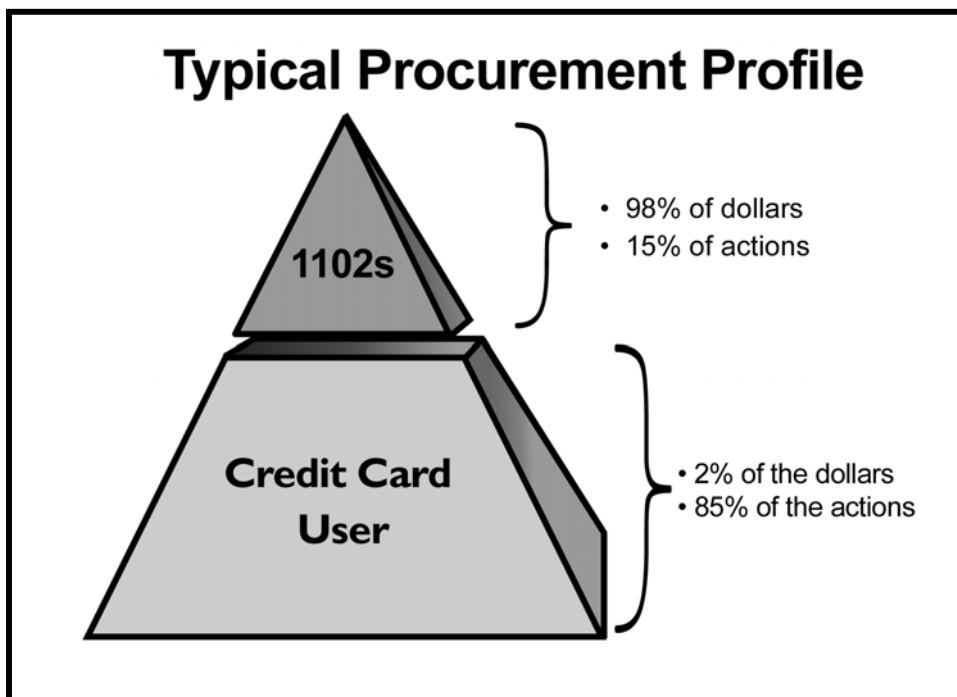
Card use was further facilitated by the Federal Acquisition Streamlining Act of 1994 (FASA), which established a “micro-purchase threshold” of \$2,500, and reduced or eliminated most of the restrictions for purchases valued at or below that threshold. For instance, micro-purchases are exempt from the Buy American Act, certain small business requirements, and the general requirement for competition. Executive Order 12931 encouraged agencies to delegate authority to use the card for micro-purchases to program offices;⁶ The Fiscal Year 1996 and 1998 National Defense Authorization Acts, among other acquisition reform measures, mandated use of the purchase card for the Department of Defense. Lastly, the Debt Collection Improvement Act of 1996 effectively crippled imprest fund use and encouraged purchase card use by requiring, with limited exceptions, electronic funds transfer for most federal payments.

By the early nineties, the program was so successful that industry (normally the leader, not the follower) and state and local governments had begun their own programs.

What is the benefit?

Although purchases of \$2,500 and under comprise only about 2% of the total government expenditures (in terms of dollars spent), they comprise about 85% of total procurement volume. Purchases over \$25,000 comprise approximately 90% of the total procurement dollar amount, while only involving 2% of the procurement actions.⁷

The “procurement profile” in most agencies looks something like this:



... the increase in the use of the purchase card has had a significant impact in reducing administrative cost and reducing procurement processing time.

With the majority of the procurement workload concentrated in processing large volumes of small dollar value purchases, the increase in the use of the purchase card has had a significant impact in reducing administrative costs and reducing procurement processing time. The Department of Commerce estimated that—in FY2001 alone—the use of the purchase card saved the Department approximately \$22 million.⁸

A 1996 GAO study⁹ examined the extent to which card use led to administrative savings or other benefits, the potential for growth in card use, and the management controls over the program at the agency level. GAO also looked for opportunities for government-wide changes that would help agencies improve their purchase card programs. GAO found, in general, that purchase card use cuts procurement costs and improves efficiency.

Further, the acquisition workforce has been shrinking over the last decade and is expected to decline even further. Those contracting officers and contract specialists remaining will need to focus their attention on this 'top 2%' – where the real money and mission-critical actions reside. It is unreasonable and clearly not value-added for these already strapped specialists to be processing purchase orders under \$2,500.

Lastly, it is less expensive and more efficient to allow program offices to make small dollar purchases themselves. Various studies have been conducted over the years to try to further quantify the savings generated by use of the purchase card instead of a purchase order. The average estimates now range from \$54¹⁰ to \$92¹¹ per transaction. With 24 million purchase card transactions recorded in FY2001, the administrative savings will top \$1 billion.

Is the program fraught with fraud?

The headlines would certainly lead us to believe that. But it is important that we put the problems in their proper perspective.

In Fiscal Year 2001, there were over 400,000 purchase cardholders across the government who conducted 24 million purchase card transactions totaling \$13.8 billion.¹² The administrative savings from using the purchase card top \$1 billion, as indicated previously. The headlines have cited abuses of the program, ranging from a few dollars to hundreds of thousands of dollars per agency. *But does the risk of waste, fraud or abuse outweigh the benefits and cost savings of the program? And is the risk of waste, fraud or abuse higher than it was before the government had purchase cards?* These are questions to which there are no simple answers, because the data on abusive and fraudulent activity is not complete. Further, our understanding is that the abuses, in part, are not necessarily accurate in their categorization as "waste, fraud and abuse," when in fact, many of the actions have been a result of simple ignorance (having not been trained) or ambivalence (e.g., reviewing officials who choose not to review.) We also note that there has been a lot of confusion generated by critics who inadvertently lump purchase card and travel abuses together.

However, analysis of the data shows that *known* abusive activity (the highest estimates are about \$5 million) is less than one-half of one percent of all dollars spent using purchase cards. With administrative savings topping \$1 billion and fraudulent activity estimated at no more than \$5 million, we're looking at a program with at least \$995 million in net savings!

Julie Ferguson, chairman of the Worldwide E-Commerce Fraud Prevention Network provides merchants with advice on implementing tools and procedures to minimize fraud. Her advice is applicable across the board: "[R]emember not to exceed the costs of fraud to your business when you are considering these tools. For example, if you lose \$75,000 to fraud per year, and you can only recover \$30,000 through fraud management tools, don't spend more than \$30,000 on those tools."¹³ In other words, don't incur expenses that exceed the benefit.

To federal agencies, the message is this—don't throw out a resoundingly successful program that is (1) contributing toward mission accomplishment, (2) saving more than a billion dollars in administrative costs, and (3) freeing up contracting personnel to be the value-added business brokers we are pushing them to be, in order to combat the relatively minimal waste, fraud, and abuse of the system.

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The solution: implement *proper* controls.

The general consensus in acquisition and inspector general communities is that use of the card *can* lead to an increase in fraud and abuse *if* proper controls are not implemented and enforced. Lack of internal controls is by far the most frequently cited factor contributing to waste, fraud or abuse in the program.

But let us be clear on one important point. We, at Acquisition Solutions, have a deep and abiding belief that public officials, like the rest of the population, are basically good, decent *and honest* people who simply want to get their jobs done as best they can. If there is one lesson learned from our years of association with the purchase card program, it is this: The vast majority of people are honest.

What are appropriate internal controls? (Back to basics.)

We have analyzed the guidance, data, investigative report findings, and recent testimonies to Congress and offer the following as *core* 'best practices' for purchase card controls to maximize the effectiveness of the tool while minimizing the risk associated with improper use. Not until the basics are in place will agencies be in a position to strategize on appropriate use and application of the tool. A few agencies are already there; many others are not. Thus, we start with the "basics" – i.e., the foundation of a strong program.

Best Practice #1:

Ensure strong management, support of controls

The most successful government purchase card programs have a common characteristic: strong commitment and leadership by senior management. As Patricia Mead, Acting Assistant Commissioner at GSA FSS' Office of Acquisition, testified to Congress, "It is no coincidence that agencies that clearly communicate their intolerance for payment delinquency, misuse, and abuse, and hold those who fail to perform accountable, also have the best run card programs."

A positive control environment is the foundation for all other standards, as it provides discipline and structure, as well as the climate and culture, which influence the quality of internal control. Agency management plays a key role in establishing the integrity and ethical values of the agency in many areas, setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

Strong support should be communicated from all levels of management, as should the expectation that cardholder and approving official duties are not just 'cursory' duties, but financial responsibilities. Consider incorporating the proper use of the card as a factor in employees' performance evaluations.

Consider Ford Motor Company as an example. Nine years into its purchase card program, the program was running "like a Yugo with two bad spark plugs." Ford turbocharged its program with "conspicuous management support" and established simpler rules and procedures. The single biggest reason for the rebirth of the program: management commitment.¹⁴

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Best Practice #2:**Commit the resources needed to achieve success.**

Business Finance Magazine, in an article titled *Preventing P-Card Plateaus*, recommends a number of steps in implementing a successful purchase card program. In addition to the advice to “find a senior executive sponsor who has a real passion for the program” (our first point, above), it advises companies to “commit the resources needed to achieve success ... and don’t cripple the program by trying to run it too cheaply.”¹⁵

Agencies often run into problems with their programs simply because they do not allocate sufficient human resources to effectively manage and perform oversight of the program. Granted, acquisition resources are scarce these days, but consider the resources that would be required if delegations of purchase card authority outside contracting offices were ceased. Unfortunately, oversight is one of the functions that often goes by the wayside when human resources dwindle.

Best Practice #3:**Be selective in issuing cards.**

Agencies often run into problems with their programs simply because they do not allocate sufficient human resources to effectively manage and perform oversight of the program.

By this, we do not necessarily mean issuing fewer cards or issuing them only to higher levels within the organization. Instead, it is wise to establish an effective approval process, through which applicants must be reviewed and approved *prior* to being issued a license to spend taxpayers’ money. In its review of the Navy sites in San Diego, GAO found controls in this area lacking and thus, a proliferation of cards issued. GAO indicated, “This purchase card proliferation resulted in a virtually impossible span of control issue at SPAWAR San Diego with only one approving official responsible for certifying summary billing statements covering 700 monthly purchase card statements for the 1,526 purchase cardholders.”¹⁶

GAO suggested an assessment of the feasibility and cost-benefit of performing credit checks on employees prior to assigning them cardholder responsibilities to ensure that employees authorized to use government purchase cards have demonstrated credit worthiness and financial integrity.¹⁷ Credit checks are considered a best practice—a *customary practice*—in industry. Their application to federal employees is the subject of much debate.

The U.S. Payment Card Information Network reports that only about 78% of U.S. households are currently considered “creditworthy.”¹⁸ A whopping 22 percent, then, are not creditworthy. Industry certainly doesn’t provide *all* applicants with access to credit. We argue, neither should the government. Credit checks are a factor in background investigations in determining an applicant’s basic suitability for the federal position for which they’ve applied. We surmise that individuals with less than acceptable credit histories present a higher than average risk to the government that the card will be used for other than its intended purpose. Unfortunately, not all federal employees have undergone such background investigations, depending upon their position, nor does less-than-acceptable credit necessarily preclude the hiring of an applicant into a position without financial responsibility. While not necessarily a federal ‘best practice,’ an assessment of the impact of credit checks would be quite intriguing.

Selectivity of cardholders should carry into the maintenance phase of the program, as well. By this, we mean that agencies should periodically assess the number and distribution of cardholders across the agency in conjunction with the evolving needs and expenditures of the agency.

Best Practice #4:**Establish spending limits commensurate with needs.**

There are a surprisingly large number of cardholders in the government who have single or monthly spending limits significantly higher than their actual needs. Agencies should strive to align cardholder limits with actual needs and to minimize the government's total financial exposure. In establishing spending limits that are much higher than actual needs, agencies often feel that they are 'planning ahead' in case of unforeseen circumstances. Unfortunately, this also increases the potential risk to the government.

A more strategic approach would be to align limits with actual needs, and to establish a process by which cardholders can receive a one-time spending limit increase in the event of a legitimate need to do so. A strategic, limited number of cardholders might carry a higher 'contingency' threshold for real emergency situations, in which an approval process might not be feasible or practical. The purchase card, after all, can play a critical role in an agency's ability to respond quickly in an emergency.

An annual review of the program should include an assessment of the credit limits, identifying any need for adjustment based on activity over the course of the year.

Best Practice #5:**Identify appropriate oversight officials and clearly delineate responsibilities.**

Agencies should establish and apply the same high standards of cardholder selection to selection of approving officials (some agencies call them reviewing officials). The approving official holds an important role in determining if transactions are legitimate and well documented. Approving officials should also be sufficiently independent and of sufficient rank to question the cardholder when additional information is needed about specific transactions.

Approving officials should be formally designated and should understand that the associated duties are an important aspect of their job. It is best, in fact, to clearly outline what is expected of them and to ensure that the role is not taken lightly. Generally, GSA identifies first-level review of transactions by the approving official as the first line of defense against misuse of the card, since firsthand knowledge of the type of products and services authorized by the organization resides at this level.¹⁹

There has been much discussion lately with regard to the extent of approving official responsibility if one of their cardholders abuses their authority. We note that agencies' implementation of controls differ significantly and that some require approving official approval prior to making a purchase, while others do not. For those that do not specifically require advance approval, it may make sense to allow or encourage reviewing officials to require an advance approval for their cardholders.

Approving officials should be held accountable for performing adequate, timely reviews as part of their job performance and should be held accountable for cardholder abuse when inadequate reviews were a contributing factor. In order to attain this level of accountability, approving officials should be responsible for reviewing a limited number of cardholders. The DoD Purchase Card Program Management Office, for example, issued guidance in July 2001 that provided a general rule of thumb of approximately five to seven cardholders to each

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reviewing official.²⁰ GSA cites the most common ratios between four and ten cardholders per approving official. Contrast these ratios with the more than 1500 cardholders to one approving official at one of the Navy units under investigation and the lack of control becomes apparent!

GAO reports that although review of transactions by persons in authority is the principal means of assuring that transactions are valid, it found that the review and approval process for purchase card purchases was inadequate in *all* the agencies it has reviewed. *All!* While the conduct of thorough reviews is an important part of the oversight process, the question arises: Are approving officials necessary in effecting appropriate and effective oversight? Perhaps there are other means of effecting an improved level of oversight, that will relieve supervisors of this administrative burden. USDA, for example, conducts its oversight using multiple Local Agency Program Coordinators (LAPCs), instead of approving officials. LAPCs are generally employees with a procurement background, who report to the more senior Agency Program Coordinators, and who use automated statements and tools to conduct effective oversight of the cardholders within their respective organizations. The LAPCs use USDA's automated Purchase Card Management System (PCMS) to monitor cardholder activity and identify questionable purchases. The PCMS is also made available to the Office of Inspector General for its use in monitoring cardholders' activities. The strategic utilization of automated tools has significant potential in the data collection and analysis of purchasing activity. We'll address this issue more in Best Practice #9.

The bottom line here, whatever the designation—reviewing official, approving official, or local agency program coordinator—is that an oversight official needs to be designated who is knowledgeable in appropriate use of the card and the procurement needs of the organization, and is willing and able to take responsibility for performing the reviews.

Best Practice #6: Ensure separation of duties.

Responsibilities of cardholders, reviewing officials and agency program coordinators should not overlap. We have seen this issue arise in program audits time and time again. Care should be taken to avoid conflicts of interest. For example, cardholders should never be reviewing officials for their supervisors, nor should they be the alternate reviewing official in the absence of the designated reviewing official. In general, a single individual should not buy, receive and certify funds availability for purchases.

DoD's Financial Management Regulations delineate the separation of duties, stating, "Separation of duties creates a situation that should preclude errors or attempts at fraud or embezzlement from going undetected. Key duties such as authorizing, approving, and recording transactions; issuing or receiving assets; making payments; preparing checks and check signing; certification of funding; and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss to the Government to the greatest extent possible." As an example, DoD's Purchase Card Program Management Office advises, "While issuing or receiving assets is performed by the cardholder, billing official review and certification of cardholder purchases provides adequate measures to minimize the risk of fraud. In addition, a cardholder may perform the functions of an Approving Official (AO); however, the AO cannot be the approving official for their own card."

**Best Practice #7:
Make training mandatory.**

After agencies identify appropriate personnel to entrust with purchase card and approving official authority, the key to a successful program is educating all participants in the proper execution of the program. This means educating the cardholders on applicable procurement regulations, appropriations issues, and reconciliations of monthly purchase card statements. It means educating oversight officials on appropriate review of cardholders' purchases and reconciliations, and appropriate use of the oversight tools available to them.

The purchase card is, after all, just a tool. The success of the program is based on knowing how to properly use the tool in accordance with applicable regulations. We are amazed at the findings by GAO and Inspectors General that a significant number of cardholders have never undergone training in its proper use. When you consider that these cardholders are outside procurement offices and, quite honestly, often don't have the foggiest idea about procurement, budget, or appropriations requirements and restrictions, the number of 'questionable' purchases is not that shocking. Unless you are well read in appropriations law, for example, you may not know that purchasing a refrigerator for your office is not allowable or that there is a fine line as to whether food provided at a conference is an allowable expense. Without training, you might not know that conducting two separate purchases for computers, each under your authorized \$2,500 limit, is called a "split purchase" and is unallowable.

Clearly, appropriate training is in order prior to issuance of a purchase card or designation of an individual as a reviewing and approving official. But is sitting in a half-day or one-day training course or viewing an online presentation enough? Or is some verification of understanding in order? We support the latter, and are encouraged to see that GSA's new online training module includes an online quiz, successful completion of which generates a Certificate of Completion for the record.

In recent testimony to Congress, GAO emphasized that effective management of an organization's workforce—its human capital—is essential to achieving results and is an important part of internal control, stating "Training is key to ensuring that the workforce has the skills necessary to achieve organizational goals."²¹ GAO pointed to IG interviews in which "several reviewing officials said that they did not know how to conduct a review of purchase card transactions, nor did they understand how and why to review supporting documentation."

Let's be honest, though. All too often the lessons learned in training tend to fade over time. That's why we like the idea of a handy 'reminder' card or pamphlet that cardholders can store with the card. USDA, for example, issues a tri-fold Purchase Card Quick Guide to cardholders to consult as a quick reminder on appropriate use of the card.²²

**Best Practice #8:
Take advantage of preventive controls to minimize risk exposure.**

We've already recommended establishing cardholder credit limits appropriate to the agency's and organization's needs, as a preventive measure. Another is the preemptive blocking of purchases from certain vendor categories.

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Agencies have the ability to block purchases from merchants coded in certain categories called Merchant Category Codes (MCC). This action does not restrict *what* is purchased, but rather restricts purchases from merchants who have identified themselves within certain merchant codes. For example, DoD restricts purchases from pawn shops, jewelry shops, casinos, cruise lines, and dating and escort services, just to name a few.

A partial listing of Merchant Category Codes which agencies might consider restricting can be found in GSA's Blueprint for Success: Purchase Card Oversight guide. Identification of other MCC codes for possible restriction can be done in conjunction with the servicing bank. Agencies should take advantage of this feature, review the list of merchant codes and restrict those not reasonably related to their purchasing needs.

Another option available to agencies is data mining. Data mining is the extraction of useful information from a database using artificial intelligence algorithms and neural networks.²³ Model patterns of cardholder misuse and fraud are input into systems, which monitor transactions for similar patterns. We understand from GSA that several agencies are in the process of developing data mining tools to highlight potential misuse or fraud. USDA's Purchase Card Management System contains an alert system that monitors the database for pre-established conditions which may indicate potential abuse by cardholders. Electronic alerts are sent to agency coordinators who are required to periodically review the alerts and review the details of the identified transaction.

Best Practice #9: Establish a multi-faceted, strategic approach to monitoring and oversight.

There are clearly a variety of different means and methods of monitoring and conducting oversight of cardholders' activities, at various levels within the organization. A strategic, multi-faceted approach is warranted that addresses who conducts reviews and how they will be conducted.

In testimony to Congress, GSA stressed that although reports can be helpful in identifying questionable purchases, review and approval of transactions at the local level continues to be "our most effective control mechanism."²⁴ It should not be the only one, however. One IG report we reviewed indicated, "we conclude that the responsibility for oversight of procurement credit card transactions is most efficiently vested in the immediate component where direct supervision over the cardholder and direct knowledge of the circumstances behind the purchases exist. No other allocation of this *primary* oversight responsibility makes sense. However ... the department is vulnerable when a field office or unit neglects to fulfill its oversight and review responsibilities or allows internal controls to become lax. Consequently, there should be some fallback protection against the possibility that local controls might fail."

The strategic use of automated reporting tools at various levels with the agency can help. Realizing the need for the most current and complete data available, GSA mandated that contractors provide electronic reports to agency managers, that are secure and easy to access via the Internet.²⁵ There are several standard reports available to agencies, each providing transaction data with varying levels of detail. Citibank, for example, offers 18 pre-formatted standard reports and six text-file standard reports along with ad-hoc, customizable reports to analyze account and transaction data.²⁶

Any of the following reports can be made available at any level in the agency hierarchy.²⁷

- **Account Activity Report** – shows all accounts in the activity and spending for each account during the billing cycle. The report provides details on each transaction such as transaction date, transaction type (credit, debit, convenience check, etc.), merchant name and dollar amount. This report may be used to sort transactions by dollar size, merchant, date or type. This report is particularly useful for identifying suspicious merchants, unusually high spending patterns, excessive convenience check usage or untimely purchases.
- **Declined Authorizations Report** – identifies cardholders who have attempted to use a card to make a purchase (1) for which they are not authorized, (2) that exceeds their single purchase limits, (3) that exceeds their monthly purchase limit, or (4) from a merchant that is assigned an inaccurate merchant category code.
- **Disputes Report** – identifies date, merchant, reason code, dollar amount, and status of each dispute filed by a cardholder. Reviewing the report would identify cardholders with excessive disputes; the cardholder may require training or may be trying to disguise misuse or fraudulent activity. Approving officials and program coordinators should track and follow up on disputes to determine their outcomes. Cardholders should attempt to resolve disputes directly with merchants prior to filing a dispute report. If a merchant is consistently appearing on the dispute report, the program coordinators should determine whether the merchant has billing issues, quality issues, or is attempting to commit fraud by submitting false transactions.
- **Unusual Spending Activity Report** – identifies transactions which may warrant further review. These reports vary by bank.
- **Lost/Stolen Card Report** – identifies cards that have been reported lost or stolen. This report may be reviewed to identify cardholders who have repeatedly reported their cards missing. This may be an indicator that the cardholder needs to secure their card or that the cardholder is attempting to disguise misuse or fraudulent activity by denying the charges.

The banks also offer a wide range of ad hoc reporting tools. Agencies need to familiarize themselves with and optimize the use of the reporting tools available to them. Development of a strategy for reviewing reports (who, what, and when) is a good start. These reports can assist in the identification of questionable transactions, split purchases, improper cardholder limits exceeding a cardholder's authority, and fraudulent activity. The electronic nature of the reports makes fraud or misuse far easier to detect than in a paper-based environment.

Patricia Meade testified to Congress, "A strong training program, state of the art tools, and a detailed review structure gives federal agencies all the tools and internal controls necessary to effectively run their card programs."²⁸ As stated in a recent GAO report, *Strategies to Manage Improper Payments, Learning from Public and Private Sector Organizations*, "people make internal controls work, and responsibility for good internal controls rests with all managers."

Clearly, a multi-faceted approach to control and oversight is in order. GAO's

Agencies need to ... optimize the use of the reporting tools available to them. Development of a strategy for reviewing reports (who, what, and when) is a good start.

Standards for Internal Control in the Federal Government states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. A strategic plan for multiple reviews of the available purchase card data is clearly in order.

Best Practice #10:

Use the infrequent bad apples as examples.

Waste, fraud and abuse of federal funds is a serious offense. But what are the consequences? Quite honestly, few know, and that is part of the problem. We recommend clearly outlining the consequences and penalties of inappropriate behavior *prior* to issuing a purchase card. Ensure that employees know the potential consequences, such as firing, jail time, and garnished wages. Further, ensure that swift action is taken for those who improperly use the card. Then, make these improper uses — and the consequential actions taken — known. DoD, for example, has publicized a shortlist of employees who have been held accountable for illegal or improper use of the card.²⁹

Best Practice #11:

Keep controls reasonable.

The call is clearly out for increased and improved controls in federal purchase card programs. However, we recommend the application of sound business judgment in determining the value-add of any controls considered. Visa has studied best practices for purchase card programs extensively and has indicated that there is a positive correlation between controls and program *stagnation*. A senior product manager for Visa's commercial cards indicated, "We have seen programs stagger because of excessive controls, and when those controls were loosened in an educated way, we have seen these programs expand successfully."³⁰ Moderation is the key.

Is the purchase card program worth saving?

There is no question in our minds that it is. The benefits of the program far outweigh the costs and potential risks, although—clearly—implementation of more consistent controls is necessary. However, we stress that it will not be enough to simply put policies in place and let them ride. GAO has witnessed firsthand that the simple implementation of broad policies—without strong management support—is not enough. Strong management, supportive of controls, is necessary, as is a culture that (1) recognizes the importance of safeguarding the financial assets of our country and (2) is willing to expend effort on training its cardholders and approving officials on proper use and oversight. In our view, this is an investment the acquisition community must make. While the workforce is currently understaffed, and implementing appropriate controls and training methodologies will take time and effort, it is minimal compared to the effort involved in 'pushing paper' if all orders \$2,500 and under ultimately get routed back through the procurement office in the absence of a purchase card program.

We recommend clearly outlining the consequences and penalties of inappropriate behavior prior to issuing a purchase card.

Next steps in implementing a best in class program

The best practices above provide the basis of the controls necessary for a successful purchase card program. With the proper controls in place, agencies will be in a position to strategize on appropriate use and application of the tool, to maximize the efficiencies as well as potential rebates.

▪ Use the card as a payment mechanism

Much of the discussion on purchase cards has centered around its use as a simple purchasing mechanism. Often overlooked is its potential as a payment mechanism for orders under existing contracts.

In our Fall 2001 Special Report, *Building the Model for Acquisition Centers of Excellence*, we detailed fourteen emerging best practices, one of which was “Use (but control) purchase cards.” We reported—

What has been more difficult to integrate into the culture of many agencies is the use of the purchase card to make payments for delivery orders against existing contracts, although the FAR clearly permits it. Use of the purchase card can significantly streamline the invoice routing, processing, and payment process. Further, it can allow authorized ordering officials in the program offices to place delivery orders against existing contracts without involving the contract office. The end result is an empowered, more satisfied customer, and a reduction in contracting office backlog... The Chief Financial Officers Council estimates that the realized efficiency in payment processing of using a charge card is \$25 per purchase.

Multiply that \$25 in savings times the thousands of invoices processed by the government each year and the potential savings are astounding!

▪ Use the card in conjunction with other ‘tools’

GAO, in tallying its data, categorized some transactions as “abusive” or “questionable,” which it defined as those that, while authorized, were for items purchased at an excessive cost, for a questionable government need, or both. With regard to excessive cost, it comes as no surprise that the government is often not realizing the best price—sometimes not even a good price—when the purchase card is used. While the purchase card is an excellent tool for allowing those with the need to acquire the product quickly and efficiently, we believe it is most effectively used in conjunction with other acquisition tools.

We encourage agencies to undertake strategic sourcing initiatives and become smart buyers using the myriad of great acquisition reform tools in a synergistic way to achieve mission results and realize maximum savings. For example, conduct an analysis of your agency’s buying practices over the past year to identify frequently used vendors, frequently used products, buying patterns, etc. Identify patterns that arise, then develop a strategy to establish agreements (in the form of Blanket Purchase Agreements or ID/IQ contracts) to negotiate discounts based on volume. Then, encourage purchase cardholders to order from these vehicles and take advantage of volume discounts, utilizing the purchase card as a method of payment. Agencies might also consider this as an opportunity to steer more business to small businesses as a strategy toward meeting their small business goals.

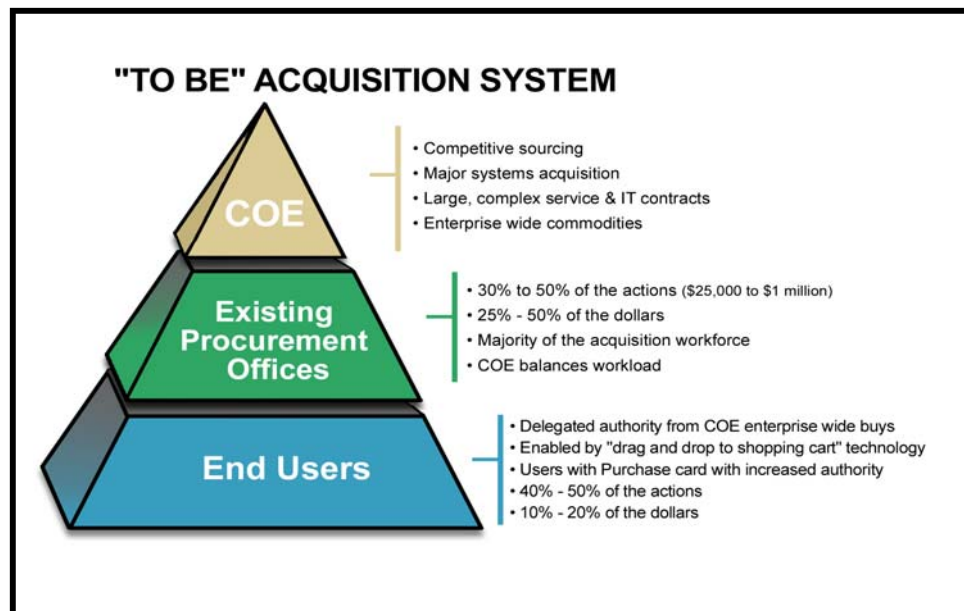
In our view, the use of purchase cards is most powerful when combined with the idea of strategic sourcing analysis, planning, and execution.³¹

With the proper controls in place, agencies will be in a position to strategize on appropriate use and application of the [purchase card] tool ...

Conclusion

As this *Advisory* goes to press, the President's Council on Integrity and Efficiency is finalizing a report on the current purchase card environment. While we have not seen that report, we have written in depth about the characteristics of acquisition centers of excellence, which provide value-added acquisition services. To become a center of acquisition excellence, the non value-added tasks must be performed elsewhere. We recently recommended the following model acquisition system to a client, based on the specifics of the organization and its buying patterns. The bottom level of the pyramid represents the large volume, low dollar purchases which can be processed via purchase card or "shopping cart" technology by the end users. The mid-level represents the existing procurement offices with the majority of the acquisition workforce, adding value to the 30-50% of the actions, up to 50% of the budget. The top level represents a "Center of Excellence," responsible for the large, complex, mission-critical service and IT contracts. Consider the impact on the top two levels if the bottom level were removed.

The purchase card is an effective tool — one of many tools available in the acquisition toolkit.



The purchase card is an effective tool—one of many tools available in the acquisition toolkit. As with any tool, knowing how to properly use and control it is critical to its successful application. Despite recent headlines of questionable and fraudulent transactions, the purchase card program remains, in the view of many, a success story and holds significant untapped potential. It does, however, need some fine-tuning to restore its reputation as an effective tool that can save the government money and improve mission support. Agencies must approach this challenge with the end in mind—the end being ultimate accomplishment of agencies' missions with the increasingly limited resources it has available.

Endnotes

¹ Procurement Innovation at the Department of Commerce, October 1987. (See page 1.)

² Under the authority of Presidential Executive Order 12352. (See page 2.)

³ The Standard Form 44 (SF-44) was a seven part carbon copy form for local purchases. (See page 1.)

⁴ Commerce, Treasury, GSA, Interior, State, HHS, Transportation, FEMA, Energy, OPM. (See page 2.)

⁵ The Government Purchase Card, September 1994 Report to Alice Rivlin, Director, OMB. (See page 2.)

⁶ GAO Report GAO/NSIAD-96-138, "Acquisition Reform: Purchase card use cuts procurement costs, improves efficiency," accessible at <http://www.c3i.osd.mil/bpr/bprcd/vol2/4110.pdf>. (See page 2.)

⁷ GSA Office of Acquisition, Federal Supply Service, http://www.gsa.gov/attachments/GSA_PUBLICATIONS/extpub/PC-effectively.htm. (See page 3.)

⁸ Testimony by Mike Sade, Senior Procurement Executive, Department of Commerce, May 1, 2002, viewable at <http://energycommerce.house.gov/107/hearings/05012002Hearing549/Sade945.htm>. (See page 3.)

⁹ GAO Report: GAO/NSIAD-96-138, Acquisition Reform: Purchase Card Use Cuts Procurement Costs, Improves Efficiency. (See page 3.)

¹⁰ Ibid. (See page 4.)

¹¹ Army Audit Agency, <http://www.dtic.mil/execsec/adr98/chap18.html>. (See page 4.)

¹² General Services Administration. (See page 4.)

¹³ http://retailindustry.about.com/library/uc/02/uc_fraud3.htm. (See page 4.)

¹⁴ "Preventing P-Card Plateaus," BusinessFinanceMag.com, September 1999. (See page 5.)

¹⁵ Ibid. (See page 6.)

¹⁶ Testimony--Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse. GAO 01-995T. Viewable at <http://www.gao.gov/cgi-bin/gettrpt?rptno=GAO-01-995T>. (See page 6.)

¹⁷ GAO Report: Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse. GAO 02-32, November 2001, viewable at <http://www.gao.gov/new.items/d0232.pdf>. (See page 6.)

¹⁸ <http://www.cardweb.com/cardlearn/fags/2001/july/creditworthy.amp>. (See page 6.)

¹⁹ Blueprint for Success: Purchase Card Oversight, GSA, April 2002. (See page 7.)

²⁰ <http://purchasecard.saalt.army.mil/Management%20Controls.pdf>. (See page 8.)

²¹ <http://energycommerce.house.gov/107/hearings/05012002Hearing549/Calbom949.htm> (See page 9.)

²² http://www.usda.gov/procurement/card/card_x/purchase_dodont.pdf. (See page 9.)

²³ GSA's Blueprint for Success: Purchase Card Oversight, April 2002. (See page 10.)

(Endnotes continued on page 16)

(Endnotes continued from page 15)

²⁴ Testimony of Patricia Mead, Acting Assistant Commissioner, Office of Acquisition, GSA Federal Supply Service, before the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce and the United States House of Representatives, May 1, 2002, <http://w3.gsa.gov/web/s/testimony.nsf/web%5Cs%5Ctestimony.nsf/summarytestimony/A280E5AB890A68CD85256BAC004B5840?opendocument>. (See page 10.)

²⁵ Testimony of GSA Acting Deputy Assistant Commissioner, Office of Acquisition, Federal Supply Service, July 30, 2001, viewable on the internet at <http://w3.gsa.gov/web/s/testimony.nsf/web%5Cs%5Ctestimony.nsf/summarytestimony/5A8B851BB7B849F985256A9A004F1207?opendocument>. (See page 10.)

²⁶ According to Citibank's website at <http://www.citibank.com/e-business/homepage/citimanager/govt/products/govtexp.htm>. (See page 10.)

²⁷ Information on reports was obtained from GSA's Blueprint for Success: Purchase Card Oversight, April 2002. (See page 11.)

²⁸ Mead testimony

²⁹ http://www.acq.osd.mil/dp/docs2002/Purchase_Card_Questions_Answers.doc. (See page 12.)

³⁰ "Preventing P-Card Plateaus," BusinessFinanceMag.com, September 1999. (See page 12.)

³¹ These concepts were expressed in Best Practice #4 of Acquisition Directions™ Special Report. (See page 13.)

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